

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6057

BILL NUMBER: SB 55

NOTE PREPARED: Jan 30, 2006

BILL AMENDED: Jan 30, 2006

SUBJECT: Public Safety Deferred Retirement Option Plan.

FIRST AUTHOR: Sen. Harrison

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: (Amended) This bill has the following provisions.

Public Safety DROP Extended: This bill extends the expiration date for the Public Safety Deferred Retirement Option Plan (DROP) from December 31, 2007, to December 31, 2011.

Calculation of Line of Duty Death Benefits: The bill provides that the death benefits for an employee beneficiary of a county retirement plan established by the sheriff's department who dies in the line of duty are calculated under the provisions of the county's retirement plan as if the employee beneficiary had never entered a DROP, if: (1) the employee beneficiary dies in the line of duty before payment of the employee beneficiary's monthly pension amount begins; and (2) the calculation of a death benefit under the provisions of a county's retirement plan depends upon whether an employee beneficiary dies in the line of duty or other than in the line of duty.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: (Amended) January 1, 2006 (Retroactive); July 1, 2006.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Public Safety DROP Extended:* This proposal affects the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund (collectively, the

Old Funds) and the 1977 Police Officers' and Firefighters' Pension and Disability Fund (the 1977 Fund).

A DROP is an optional payment form under a defined benefit plan that allows a participant to elect to receive a lump sum in exchange for a reduced monthly benefit.

For the Old Funds, with no change in retirement patterns, a continuation of the DROP will mean an estimated cost of \$9.36 M. For the 1977 Fund, with no change in retirement patterns, a continuation of the DROP will be actuarially neutral.

The cost for the Old Funds arises because those funds have few members who could now enter the DROP with fewer than 32 years of service. Members with less than 32 years of service entering the DROP are actuarially favorable, while those entering the DROP after earning 32 years of service are actuarially unfavorable.

In the 1977 Fund, those two classes of DROP members offset each other. The 1977 Fund saves money when a member enters the DROP before the member completes 32 years of service. About six of ten members eligible for the DROP enter the DROP.

[Additional information is available from the Office of Fiscal and Management Analysis.]

(Revised) *Calculation of Line of Duty Death Benefits*: The actuaries for many of the sheriff's plans report that to the best of their knowledge, Marion County is the only county whose Sheriff's Retirement Plan currently provides for a death benefit that varies depending on whether an employee beneficiary dies in the line of duty or other than in the line of duty.

The fiscal impact is difficult to estimate and will depend upon the number of eligible employees that choose to enroll in the DROP. Further, this proposal will have a fiscal impact only if one of the employees enrolled in the DROP suffers a line-of-duty death during the limited time period before payment of the employee beneficiary's monthly pension begins.

For illustrative purposes, it is estimated that the impact would occur if such a line-of-duty death were suffered by an enrolled DROP participant during the period after he enters the DROP and prior to receiving any monthly pension benefits. For this example, it has been assumed that a representative participant (whose age, service, and salary are equal to the average age, service, and salary of participants eligible to enter the DROP) enrolls in the DROP and suffers a line-of-duty death after participating in the DROP for 1.5 years, but before payment of his monthly pension begins. Based on these assumptions, upon the line-of-duty death of such a participant, the liabilities for benefits to be paid from the plan would increase by approximately \$95,000.

Further, based on an estimate of the percentage of eligible employees that enroll in the DROP and an estimate that approximately one in four deaths of active participants are a line-of-duty death, it is estimated that the increase in accrued liabilities for the Marion County Sheriff's Plan is approximately \$7,500 and the increase in annual funding is approximately \$1,400, or less than 0.01% of payroll.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund as administrators of the 1977 Fund.

Local Agencies Affected: Those with members in the Old Funds and the 1977 Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the Police and Fire Funds, 317- 576-1508; Doug Fiddler, of McCready & Keane, Inc., actuaries for many of the sheriff's plans, 317-849-4333.

Fiscal Analyst: James Sperlik, 317-232-9866.